

The best illustration of the system of banking upon general assets is afforded by the banks of New England, and especially by the banks of Boston, which became the centre of the New England redemption system. The note issues of the New England banks were permitted in many cases to exceed the proportion to capital which is now considered safe, and they were not subject until late in their history to thorough official supervision; but in spite of these defects of the system, the notes usually circulated at par and specie was attracted to New England when driven from other sections of the country by depreciated paper. The first local bank in New England, and the second of the kind in the United States, was incorporated by act of the General Court of Massachusetts on February 7, 1784, with a maximum capital of \$300,000, and was called the Massachusetts Bank. No limitations were imposed in the original Massachusetts law upon note issues, but an act of 1792 prohibited notes below \$5, and the bank was directed to limit the amount of notes, together with "money loaned by them by a credit on their books or otherwise," to "twice the amount of their capital stock in gold and silver, actually deposited in the banks and held to answer the demands against the same." A general law was passed in 1799, prohibiting banking by unincorporated companies or the further issue, except by the Nantucket Bank, of notes below \$5. This provision was modified in 1805 so as to permit the issue of bills of \$1, \$2, and \$3 to the amount of five per cent. of paid-up capital. This limit was increased in 1809 to fifteen per cent, reduced in 1812 to ten per cent., and again increased in 1818 to twenty-five per cent., which remained the limit during the life of the State banking system.¹

An act was passed in 1803, requiring semi-annual reports of condition by the Massachusetts banks to the State officials, and it appeared that at that time seven banks were in operation with a capital of \$2,225,000 and a circulation of \$1,565,000. An attempt was made in 1811 to found a State

t, *New England Bank Currency*, "Sound Currency," Vol II., No. 13, p. 4.